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SUBJECT: NBU INTERVENES TO SLOW HRYVNIA CURRENCY SLIDE

REF: A) KYIV 1995 B) KYIV 1959

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¶1. (U) Responding to the weakening hryvnia (UAH), National Bank of Ukraine (NBU) Council Chairman Petro Poroshenko on Tuesday announced that the official exchange rate for this year would be changed to UAH 4.95/\$ plus or minus 8 percent from the previous UAH 4.85/\$ plus or minus 4 percent. Despite the announcement, the UAH continued its slide yesterday, trading in the morning between UAH 4.60 to UAH 4.80 to the U.S. dollar on the interbank currency market, well outside the new "official" exchange rate.

¶2. (U) The NBU Council pronouncement of a new policy was only advisory, as ultimate monetary policy authority rests with the NBU Board of Governors and its head Volodymyr Stelmakh. There was no evidence during the morning yesterday that the NBU would intervene in the currency market in an attempt to implement the new "official" policy. However, at noon on Wednesday, the NBU announced that it would sell U.S. dollars at an exchange rate of UAH 5.0/\$. Contacts in the banking community confirmed that the NBU was selling to commercial banks at the announced UAH 5.0/\$ rate, but in quantities less than 50 percent of that requested by the commercial banks. Following the NBU's action, the interbank exchange rate declined to UAH 5.50/\$ for those who could not fulfill their dollar needs buying from the NBU.

¶3. (U) Comment: The NBU's actions in the market yesterday were clearly an attempt to bring some stability to a quick moving currency market that was being driven in part by speculators. The NBU has not announced whether it plans further interventions, though its \$37 billion in foreign reserves certainly are sufficient at this time to allow future interventions if the NBU chooses to make them. Over the longer term, however, NBU interventions in the market could prove futile, especially in the context of the global financial crisis and other external factors bearing down on Ukraine's economy.  
End comment.

TAYLOR